

THE LEONARD LETTER

June 6, 2005

QUOTE OF THE WEEK

“Of all the tithes of oxen and sheep, and goats, that pass under that pass under the shepherd’s rod, every tenth that cometh shall be sanctified to the Lord.” Leviticus 27:20

UNDER THE DOME

*****Dems Need a History Lesson*****

This is such a wonderful “teachable moment.” Last Wednesday, the Assembly Democrats announced they want to establish the 11 and 12 percent income tax brackets for high earners that were even higher than those in place under Governor Wilson. The current top rate is 10.3 percent. The Dems trumpet their proposal will bring the state an extra \$3.1 billion over the next three years. I applaud Daniel Weintraub of the Sacramento Bee for challenging Speaker Fabian Nunez on Tuesday in an editorial board meeting before the official announcement. Weintraub pointed out to the Speaker that when Pete Wilson established similar high rates in 1991, the actual revenue received fell far short of what was promised. Weintraub reports that Nunez and his staff countered that that was just Republican spin, not fact. This is a very careless lie by Nunez and his people. The Wilson tax hikes were adopted in July of 1991. The income tax increase was promised to bring in \$2.3 billion. That money was booked and spent. Here is what actually happened to personal income tax (PIT) revenues during that time frame:

1991: \$16.9 billion
1992: \$17.2 billion
1993: \$17.2 billion
1994: \$17.6 billion

Weintraub points out that it wasn’t until the ‘94-’95 fiscal year that the PIT revenues started to grow significantly. More importantly, that growth happened only when the tax hike was revoked:

1995: \$18.5 billion
1996: \$20.9 billion
1997: \$23.3 billion

This startling increase in PIT revenues went up and up, reaching \$44.6 billion in 2001 (more on this later). In 2002, I asked the Legislative Analyst to look into how the Wilson tax hikes were scored and what they actually delivered. The LAO reported that the revenue from the three main components of the 1991 tax increase came in about 20

percent lower than was forecast, for a shortfall in '91-'92 of \$800 million. The shortfalls continued for the next two budget cycles. I have posted this document here:

<http://www.boe.ca.gov/leonard/blletters/LL6605attach.pdf>

A couple of points about this data. Tax hikes affect human behavior. You simply cannot use a calculator to project revenues from tax increases. We are already so hyper-progressive in this state -- so reliant on "the rich" -- that when Microsoft issued its first dividend in 2004, it made a significant blip in the state's income tax revenues. That is not a healthy or predictable way to fund government. The irony is if we were not over-reliant on upper income earners, Gray Davis would still be governor. The massive surge in revenue in 2001 was due to upper income capital gains from the dot-com explosion. Like Nunez is proposing to do, Davis built that money into his budget, but then the stock market collapsed, and we are still digging ourselves out today. Moreover, leaning on upper income Californians only encourages them to move to places like Nevada, taking their capital and businesses and jobs with them. Morally, I find no justification for progressive taxation. As the lead quote to this letter indicates, the Judaic-Christian tradition of tithing is 10%. According to my belief, God did not say that those who make more pay a higher rate -- rather, our Lord clearly advocates a flat tax! Under this system, if you earn more you still pay more, but the rate is the same for all. To me, that is the essence of fairness.

Final note: Not all news sources are equal. I am particularly disappointed in Evan Halper's story in the Los Angeles Times on June 1. He wrote, "The proposed tax increase, which would raise an estimated \$1.8 billion a year..." Estimated by whom? We need to read the San Francisco Chronicle story from the same day to find out. The Chron wrote, "The higher tax rates would take in \$2.3 billion over the first year and a half and \$1.8 billion after that, ACCORDING TO ASSEMBLY DEMOCRATS' ESTIMATES." (My emphasis added.) Halper also threw in some gratuitous quotes from a "senior economist" Mike Bazdarich, of the UCLA Anderson Forecast, that ridiculously argue that it is less harmful for the economy to raise taxes if those taxes go to schools. Like I have pointed out previously, the Anderson School at UCLA continues to embarrass itself. The Halper story did not even mention what the new rates are in the Dem proposal.

*****New Math, Speaker Style*****

I get that Speaker Nunez wants a major income tax increase to fund his budget priorities; I just do not get his math. The major spending increase he wants is an additional \$3.1 billion to school spending over two years, funded by the new taxes. Nunez says that a 7% increase (going from a 10.3% tax rate to a 11% tax rate) will raise enough money to pay for it. As noted above, this ignores the fact that upper income families often have lots of choices about where they earn their money and where they pay taxes. That aside, I tried to figure out how many families would be affected. Nunez says that for the family filing a joint return on \$310,000 income, the tax would be \$124 per year. I am assuming this is the average payment that the Speaker envisions. So, to raise the \$3.1 billion over the two-year period at \$124 per family, you would need 12.5 million families raise the amount the Speaker wants. However, there were just over 13 million personal income

tax returns filed last year (most of them nowhere near \$310,000), so this cannot be right. The only other possible assumption is that the few thousand multimillionaires left in California will sit still and pay this increased tax without taking any action to legally reduce their tax obligations. Either way, the Speaker's math does not work.

*****Legislative Update*****

I am happy to report that last week SB 234 (Runner), the bill I am sponsoring that will enhance privacy for taxpayers who come before the BoE, passed out of the Senate unanimously. My thanks to Senator Runner and his top-notch staff. The measure is now in the Assembly for consideration.

*****Greenhouse Gases*****

Governor Schwarzenegger has joined the mainstream media in its campaign against global warming. This campaign has been short on facts and long on hysterics. One problem that is seldom mentioned is the science that says, at this point, you can control poisonous emissions or you can control so-called greenhouse gases, but you cannot effectively control both. The combustion engine in automobiles applies heat to nitrous oxides and sulfurs in catalytic converters, and it is heat that creates the major greenhouse gas of carbon dioxide. (That's right: the major greenhouse gas is the gas in soda pop). An 80% reduction in greenhouse gases is an 80% reduction in industrial production, automobile travel and electricity use. Consider powering your house only 4.8 hours per day. If controlling greenhouse gases was a serious need for our future then I would expect responsible environmentalists to support the immediate and complete conversion to nuclear power from fossil fuels. It is the only way to accomplish their goals without putting the economy back to the stone age.

MISCELLANY

*****TV Bias*****

Last week, Congressman Tom DeLay asked for an apology from the NBC show "Law & Order" for a scene in which a detective suggests that the police, who are looking for a right wing militant murderer, should look for a guy with a DeLay tee-shirt. Outrage from DeLay and his supporters have been met with incredulity by the television folks. They cannot imagine why the Congressman would be upset because the line was simply dialogue on a television show and was not intended to imply that DeLay is either sympathetic to murderers or that he himself is a right wing militant. Now I do not watch the show, but my guess is that no one is ever shown smoking a cigarette. Why? Because television folks know that people are influenced by what they see and hear, even when it is fictional. Clearly, they intended slight to Congressman DeLay and believe it is acceptable to defame him and his supporters in the name of entertainment.

*****A Good Read*****

Nearly every day's news includes a story of violence from the Middle East. It has been going on for centuries and, for the most part, Americans do not grasp the issues that divide the region. Former U.S. Ambassador Dennis Ross has written a book that will give you the understanding you need about the Middle East and implications for U.S. foreign policy. In "The Missing Peace," Ross explains why peace is so elusive. Ross was the chief peace negotiator for Presidents George H.W. Bush and Bill Clinton, and his book details the peace process from 1988. He puts the current war in Iraq and terrorism in context and offers insight into this important topic in a different way than other books I have seen.

BOE AND LEGISLATIVE DATES

June 7-8, 2005 --- BoE meets in Culver City.

June 15, 2005 --- Budget bill must be passed by midnight.

June 16, 2005 --- Tax seminar for Nonprofit and Tax Exempt Organizations in Bakersfield.

June 30-July 1, 2005 --- BoE meets in Sacramento.

July 4, 2005 --- Independence Day.

July 15, 2005 --- Legislature's summer recess begins, provided the Budget bill has been enacted.

NOTABLE DATES/ HISTORY

June 6, 1932 --- The first federal tax on gasoline went into effect. It was a penny per gallon.

June 6, 1966 --- Black activist James Meredith was shot and wounded as he walked along a Mississippi highway to encourage black voter registration.

June 6, 1968 --- Senator Robert F. Kennedy succumbed to being shot by Sirhan Bishara Sirhan the day before in Los Angeles.

June 6, 1978 --- California voters passed Proposition 13, cutting property taxes.

June 7, 1775 --- United Colonies changed name to the United States. Richard Henry Lee submitted to Congress a resolution for independence.

June 8, 1995 --- U.S. Air Force Capt. Scott O'Grady was rescued by U.S. Marines, after having to survive alone for several days when his F-16 fighter was shot down.

June 9, 1868 --- First meeting of the Board of Regents of the University of California.

June 9, 1943 --- The withholding tax on payrolls was authorized by the U.S. Congress.

June 10, 1776 --- The Continental Congress appointed a committee to write a Declaration of Independence.

June 10, 1967 --- The Six Days War between Egypt and Israel ended.

June 11, 1776 --- Thomas Jefferson began drafting the Declaration of Independence.

June 11, 1963 --- Dr. Martin Luther King Jr. was arrested for attempting to integrate Florida restaurants.

June 11, 2001 --- Convicted Oklahoma City bomber Timothy McVeigh was executed at the federal penitentiary in Terre Haute, Indiana.

June 12, 1776 --- Virginia's Declaration of Rights was unanimously adopted in convention and became the pattern for all future state, national, and foreign bills of rights.

June 12, 1963 --- Civil rights activist Medger Evers was shot and killed at his Jackson, MI home.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate's office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

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